

Policy Pennings by Dr. Daryll E. Ray

Whence the high prices?

In one of our columns last year we wrote, “One of the complaints that has been leveled against the farm payment programs in the European Union, and especially the current farm program subsidies in the United States, is that these payments have driven down crop prices for farmers worldwide. As a result many have called for the elimination of these programs.”

Within the last week soybean prices hit highs not seen since 1988 and some analysts have identified factors that might drive the prices even higher. But, it is not just soybeans. Prices for agricultural commodities are higher across the board. Wheat is up as is corn, cotton and grain sorghum.

Higher prices, that must mean that the U.S. and the E.U. got rid of those agricultural subsidies that were holding prices down, right? Wrong! The subsidy programs are still in place. What then are the events that have brought about the current surge in prices?

During the summer of 2002, corn prices began to move off the lows they had experienced since the 1998 crop year. Weather was stressing the corn crop and there was concern that the crop could come in at significantly less than 9 billion bushels. It turned out that the crop came in at 9.008 billion bushels and prices moderated somewhat following harvest. Ending U.S. stocks for the 2003 crop year dropped by nearly a third to just over a billion bushels, the lowest level since 1996. Soybean prices in this period rose along with corn.

Midwest weather again generated concerns during the summer of 2003. This time, however, the shortfall was in soybeans. The production of 2.418 billion bushels was 12% under the weather-shortened 2002 crop year production level. As prices began to rise all eyes turned

toward South America. What would the Brazilian soybean crop look like? Would there be enough production to cover the weather related shortfall in the U.S?

While all of the data are not in yet, it appears that dry weather in Brazil’s southern soybean producing region and a wet harvest in Brazil’s central growing area are combining for a short South American crop as well. With strong continuing demand for soybeans, the price has begun to skyrocket.

Government payments for this crop year will be much lower than in recent years. Again we see that subsidy levels are the result of what happens in the marketplace not the cause of what happens there. In 1998, it was low prices that brought about a spike in subsidy levels. This spring’s high market prices should virtually eliminate LDP and counter-cyclical payments for the 2003-2004 crop year.

As we have said before, weather is a powerful, unpredictable, and undependable force in driving price changes for agricultural commodities. As the Roman orator Cicero said over two thousand years ago, “Indeed farming is throughout a thing whose profits depend not on intelligence and industry, but on those most uncertain things, wind and weather.” We would not be so critical of intelligence and industry as Cicero, however, we would agree with him on the impact of wind and weather.

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